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RUEHBO/AMEMBASSY BOGOTA 4794  
RUEHBR/AMEMBASSY BRASILIA 8707  
RUEHBU/AMEMBASSY BUENOS AIRES 5933  
RUEHCV/AMEMBASSY CARACAS 3147  
RUEHGE/AMEMBASSY GEORGETOWN 0529  
RUEHPE/AMEMBASSY LIMA 3349  
RUEHMD/AMEMBASSY MADRID 3763  
RUEHMN/AMEMBASSY MONTEVIDEO 5132  
RUEHPO/AMEMBASSY PARAMARIBO 0214  
RUEHQT/AMEMBASSY QUITO 5784  
RUEHSG/AMEMBASSY SANTIAGO 0393  
RUEHRI/AMCONSUL RIO DE JANEIRO 0973  
RUEHSO/AMCONSUL SAO PAULO 2171  
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C O N F I D E N T I A L SECTION 01 OF 02 LA PAZ 003259

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TAGS: [ECON](#) [PGOV](#) [PREL](#) [FAS](#) [IICA](#) [AGR](#) [FAO](#) [IFAD](#) [BL](#)

SUBJECT: DIESEL SHORTAGES: EXCUSES, BLAME, AND INFLATION  
WORRIES

Classified By: EcoPol Chief Mike Hammer for reasons 1.4 (b) and (d).

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Summary  
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¶1. (SBU) Over the past four months, Bolivia has suffered repeated shortages of diesel, especially in the eastern, agricultural powerhouse of Santa Cruz where the concurrent winter harvest and summer planting seasons are hampered by fuel shortages. Logistical problems appear to be principally to blame, but accusations of mismanagement, incompetence, speculation, and contraband abound. The consequences are beginning to be felt as less grains are harvested, reduced plantings threaten food security, and increasing food prices pressure an already rising inflation rate. End Summary.

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Where's My Diesel  
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¶2. (C) Bolivia produces 12,000 barrels of diesel a day, but imports around 6,000 barrels a day or 180,000 barrels a month. These imports come principally from Venezuela and 70% are brought in via the Paraguay-Parana river (the remainder is trucked up from the Peruvian port of Ilo). Many of the sporadic shortages over the past four months have resulted from low river levels that do not allow for the passage of fuel barges. Adding to this problem, is a shortage of trucks to bring the stranded diesel overland via Paraguay or Argentina. The President of the Association of Hydrocarbon Suppliers (Asosur) in La Paz, Pierre Chain, said in early November that the shortages were mostly the results of these logistical problems and would therefore eventually sort themselves out, yet the problems persist.

¶3. (C) Others claim that nationalization is to blame and the Bolivian state hydrocarbon company (YPFB) has neither the manpower nor the brainpower to effectively manage all aspects of the hydrocarbon sector. For example, Chain said that during one of the shortages YPFB wanted one million barrels

of diesel delivered and thus called for one million barrels to be put into the pipeline, not realizing that 200,000 would stay in the line. In addition to technical failures, others criticize YPFB lack of foresight. Martha Parada, the general manager of Asosur in Santa Cruz says that the biggest problem isn't just logistical, but rather a lack of planning by YPFB.

She claims that "strategic planning of importation simply doesn't exist."

14. (SBU) For its part, the government, while acknowledging logistical issues, places most of the blame on contraband. At the end of October, the Minister of Hydrocarbons, Carlos Villegas, claimed that contraband of diesel had "significantly increased." He ordered military police to be posted at all gas stations and increased vigilance by border control agents. The problem has yet to be solved. Indeed, as long as the price of diesel remains half of what it is in the neighboring countries of Brazil and Chile, contraband will continue to leak across the borders. Ironically, one of groups most critical of the central government also stands the most to gain from diesel subsidies; it is estimated that diesel subsidies provide an annual savings of some \$70 million for Santa Cruz farmers. (Note: The GOB estimates that subsidies on diesel and liquefied petroleum gas (LPG) will total around \$180 million by the end of the year, \$20 million more than was projected at the beginning of the year. End note.)

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The Impact: Food Security and Inflation  
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15. (SBU) The Agricultural Board for Eastern Bolivia (CAO) warns that diesel shortages are hampering the current winter harvest and summer planting seasons. CAO's President Mauricio Roca estimates that 500,000 hectares (out of a total 1.2 million hectares that were projected to be planted) are at risk. It is not only a matter of hectareage planted; timing in agriculture is also important. Roca points out that the optimal time for planting beans and corn has already passed, yet farmers have been forced to postpone planting until now. As a result, he predicts diminished yields come harvest and a possible food crisis next year. Echoing these fears, The National Federation of Rice Cooperatives (Fenca) claims that the government delivered diesel too late in the year and some 35,000 hectares of rice are in danger of being lost.

16. (SBU) It is not only disruptions in planting that has farmers and bureaucrats worried, floods and diesel shortages have also led to the loss of an estimated 100,000 hectares (\$60 million) of grains. Between squeezed domestic supplies and high international prices, the GOB is clearly worried about the inflationary pressures on the Bolivian food basket. A recent study by the survey company Mori, estimated that between July and November, the cost of lunch in the four largest cities in Bolivia had risen by 47% (the overall inflation rate reached 11.02% through November).

17. (SBU) The government has responded to rising food prices with Band-Aids and blame. Currently, the GOB is importing 1,000 tons of rice from Argentina which it plans to sell at below market prices. Past actions have included taking over transportation and distribution of meat from the isolated northeastern state of Beni and having army units bake bread. More ominous in the current political context are the consistent claims that large producers are to blame for high prices. Recently, the Minister of Rural Development Susana Rivero assured that there are no production shortages, but rather just speculation. And Evo consistently blames the agricultural "oligarchy" for trying to undercut his government by withholding abundant supply to increase inflation and topple his government.

18. (SBU) Recently, a government produced television spot supporting the campaign "Bolivia is Changing, Evo Delivers" portrays a campesino women talking to a cab driver about high food prices. The taxi driver patiently explains that it is the fault of the greedy, large farmers by name who withhold supplies. The woman at first questions why she has never heard about such practices, but the cabby explains that those same oligarchs also control the media. "They are without shame," the exasperated lady gasps as the theme slogan cuts short the scene.

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Comment  
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19. (C) The manner in which the Morales Administration has addressed the persistent diesel shortages again demonstrates both its lack of technical know-how and determination to blame others for its own failings. Meanwhile, inflation looms as the specter that could undercut Evo's popularity with his base supporters, push the administration toward more radical actions/expropriations, or both. Political tensions are running high throughout the country, what remains to be seen is to what extent a worsening economic situation for the poorest Bolivians will affect Evo's ability to push through his radical, undemocratic, and anti-free market agenda.

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